

Alembic Pharma (ALEPHA)

₹ 595

One-offs in US drive financials again...

- Alembic Pharma's Q3FY19 results were better-than-expected on the profitability front whereas revenues were in line
- Revenues grew 21.2% YoY to ₹ 1018.2 crore (I-direct estimate: ₹ 1019.5 crore) on account of 44.1% YoY growth in the international business to ₹ 448 crore (I-direct estimate: ₹ 447.5 crore) led by sharp growth in ex-US businesses. Domestic formulations grew 4.6% to ₹ 365 crore, came in line with I-direct estimates
- EBITDA margins improved 147 bps YoY to 23.8% (I-direct estimate: 20.0%) mainly due to improvement in gross margins (75.6% vs. 73% in Q3FY18). EBITDA grew 29.2% YoY to ₹ 242.2 crore vis-à-vis I-direct estimate of ₹ 204 crore
- Net profit grew 30.0% YoY to ₹ 169.8 crore (I-direct estimate of ₹ 140.6 crore) mainly due to a strong operational performance

Domestic sales growth riding on speciality segment growth

APL's domestic formulation sales (41% of total revenues) grew at ~7% CAGR in FY14-18 mainly due to ~13% growth in the speciality segment. Specialty contribution in the domestic branded space increased to 68% in FY18 from 54% in FY14. With 3800+ MRs at its disposal, the company enjoys a wide reach among doctors. We expect the speciality segment to grow at 15-20% CAGR in FY18-21E on the back of aggressive product launches and constant addition of new speciality segments & sub-segments. Overall, we expect domestic formulations to grow at 12.4% CAGR in FY18-21E to ₹ 1808 crore.

US growth to be driven by new launches

APL's US sales (22% of FY18 revenues) grew at ~29% CAGR in FY14-18 to ₹ 910 crore on the back of consistent product launches including limited competition products. Despite being a late entrant, the company has done reasonably well with a product basket of ~132 ANDA filings with 62 pending final approvals. APL has already demonstrated required capabilities by securing limited competition approvals like gAbilify(CNS), gExforge(CVS), gCelebrex(Pain) and gMicardis(CVS). APL now has its own front-end team, which gives it better control on its product launches. We expect US sales to register 15.5% CAGR in FY18-21E to ₹ 1431 on the back of new launches.

High capex, R&D to drive long term growth plans

Alembic has spent ~₹ 1500 crore in FY16-18 and also guided for an additional ~₹ 600 crore capex for FY19 to set up injectable, oral solid oncology facilities, API capacity ramp-up and to set up a plant under the Derma JV (orbicular). Guidance of ~₹ 500 crore (i.e. ~14% of sales) of R&D for FY19 was one of the highest in the industry in percentage term. Both heads are likely to witness above normal outflows.

R&D, capex benefits back-loaded; maintain HOLD

Just like Q2, the Q3 numbers also received boost from three to four shortage driven opportunities in the US. Domestic growth was muted due to high base of inventory adjustment. With the aggressive R&D and capex plans, the management has signalled its long term strategy for the next five to six years, especially on the US front. This includes a foray into niche areas like oncology, injectables, derma, etc. We believe this is fraught with a new set of challenges. The benefits are most likely to be back-loaded. Immediate cash burn is likely to weigh on sentiments in the near term. We roll over to FY21E. Accordingly, we arrive at our new target price of ₹ 620 based on 22x FY20E EPS of ₹ 28.

Rating matrix	
Rating	: Hold
Target	: ₹ 620
Target Period	: 12-15 months
Potential Upside	: 4%

What's Changed?	
Target	Changed from ₹ 560 to ₹ 620
EPS FY19E	Changed from ₹ 27.9 to ₹ 27.1
EPS FY20E	Changed from ₹ 31.2 to ₹ 28.1
Rating	Unchanged

Quarterly Performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	1,018.2	840.0	21.2	1,127.1	-9.7
EBITDA	242.2	187.5	29.2	302.3	-19.9
EBITDA (%)	23.8	22.3	146.8	26.8	-303.4
Net Profit	169.8	130.6	30.0	200.1	-15.1

Key Financials				
(₹crore)	FY18	FY19E	FY20E	FY21E
Revenues	3130.8	3977.5	4325.1	5013.2
EBITDA	643.1	860.1	780.7	904.9
Net Profit	412.6	572.5	510.4	530.4
EPS (₹)	21.9	30.4	27.1	28.1

Valuation summary				
	FY18	FY19E	FY20E	FY21E
PE (x)	27.2	19.6	22.0	21.2
Target PE (x)	28.3	20.4	22.9	22.0
EV to EBITDA (x)	18.4	13.9	14.9	12.5
ROIC (%)	27.9	36.8	30.6	19.1
RoNW (%)	18.6	21.4	16.6	15.2
RoCE (%)	18.0	19.9	17.2	17.1

Stock data	
Particular	Amount
Market Capitalisation	₹ 11220 crore
Debt (FY18)	₹ 1008 crore
Cash & cash equivalents (FY18)	₹ 247 crore
EV	₹ 11981 crore
52 week H/L	664/412
Equity capital	₹ 38 crore
Face value	₹ 2

Price performance (%)				
	1M	3M	6M	1Y
Alembic Pharma	2.8	2.6	9.1	9.5
Ajanta Pharma	5.0	22.4	15.0	-23.4
Torrent Pharma	7.3	20.0	32.1	34.0

Research Analyst	
Siddhant Khandekar	siddhant.khandekar@icicisecurities.com
Mitesh Shah	mitesh.shah@icicisecurities.com

Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	Q2FY19	YoY (%)	QoQ (%)	Comments
Revenue	1,018.2	1,019.5	840.0	1,127.1	21.2	-9.7	YoY growth mainly due to 44% growth in export formulations
Raw Material Expenses	248.5	305.8	226.4	272.1	9.7	-8.7	A 255 bps improvement in gross margins to 75.6% mainly due to one-off opportunities in the US
Employee Expenses	198.4	173.3	147.4	182.6	34.6	8.6	YoY increase due to addition of headcount in R&D, new plants along with routine increments and incentives
R&D Expenditure	112.2	132.5	98.1	144.7	14.3	-22.5	
Other Expenditure	216.9	203.9	180.5	225.3	20.1	-3.7	
EBITDA	242.2	203.9	187.5	302.3	29.2	-19.9	
EBITDA (%)	23.8	20.0	22.3	26.8	147 bps	-303 bps	YoY improvement and beat vis-à-vis I-direct estimates mainly on account of traction from one-off opportunities in the US
Interest	6.0	1.6	0.8	5.8	625.6	2.4	
Depreciation	29.1	28.6	26.4	28.6	10.0	1.5	
Other Income	3.5	2.1	0.3	2.4	966.7	48.5	
PBT before EO & Forex	210.8	175.8	160.6	270.3	31.2	-22.0	
Forex & EO	0.0	0.0	0.0	0.0	NA	NA	
PBT	210.8	175.8	160.6	270.3	31.2	-22.0	
Tax	40.0	35.2	29.8	70.3	34.3	-43.1	
PAT before MI	170.8	140.6	130.9	200.0	30.5	-14.6	
Net Profit	169.8	140.6	130.6	200.1	30.0	-15.1	YoY increase and beat vis-à-vis I-direct estimates due to strong operational performance
Key Metrics							
Domestic Formulation	365.0	366.5	349.0	385.0	4.6	-5.2	Slow YoY growth was due to high base of re-stocking in Q3FY18 post GST implementation
US	308.0	277.3	218.0	419.0	41.3	-26.5	YoY growth and beat vis-à-vis I-direct estimates was due to one-off opportunities in three to four products
RoW	140.0	170.2	93.0	168.0	50.5	-16.7	YoY growth was due to strong growth in Australia and Europe. Miss vis-à-vis I-direct estimates due to volatile nature of the business
APIs	205.0	180.0	180.0	155.0	13.9	32.3	

Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	FY19E			FY20E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	4,014.0	3,977.5	-0.9	4,355.5	4,325.1	-0.7	
EBITDA	794.7	860.1	8.2	867.0	780.7	-10.0	
EBITDA Margin (%)	19.8	21.6	182 bps	19.9	18.1	-185 bps	Changed FY19 margins mainly due to better-than-expected margins in Q3FY19. Changed FY20E margins due to higher fixed cost and likely increase in raw material charges by 3-4%
PAT	525.3	572.5	9.0	588.1	510.4	-13.2	Changed mainly in sync with EBITDA
EPS (₹)	27.9	30.4	8.9	31.2	27.1	-13.2	

Source: Company, ICICI Direct Research

Assumptions

(₹ crore)	Current				Earlier	
	FY17	FY18	FY19E	FY20E	FY19E	FY20E
Domestic Formulation	1,255.1	1,274.0	1,421.2	1,605.9	1,442.2	1,614.1
US	917.0	909.5	1,210.7	1,261.3	NA	NA
RoW	319.5	297.5	573.5	552.5	NA	NA
APIs	640.2	650.0	747.9	808.5	731.9	768.5

Source: Company, ICICI Direct Research

Company Analysis

Tracing its roots way back to 1907, the company has remained an active player in the domestic formulations space with a few legacy brands like Azithral, Althrocin and Wikoryl in the anti-infective and cough & cold segments. In 2011, APL was de-merged from Alembic Ltd to provide more thrust to formulations and insulate this business from the vagaries of commoditised APIs. Formulations account for 79% of the business while the rest comes from APIs. As of FY18, the domestic: exports formulation ratio was at 51:49. Consolidated revenues, EBITDA and PAT have grown at a CAGR of 14%, 16% and 15%, respectively, in FY14-18.

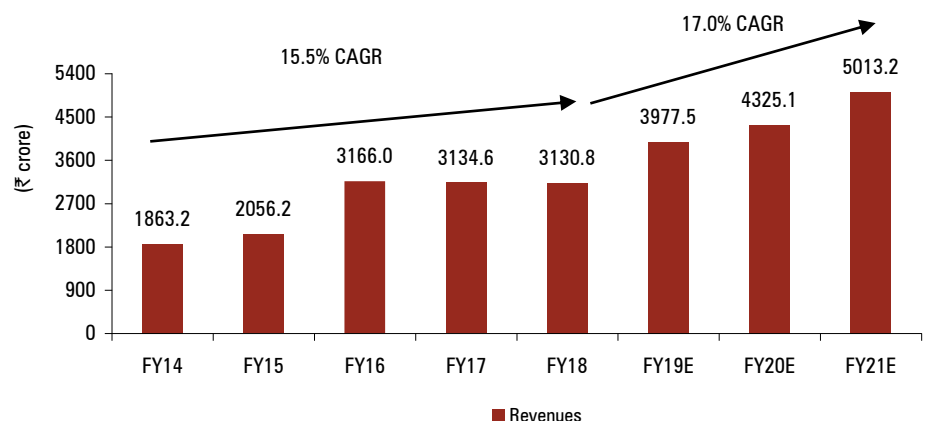
The company's domestic branded portfolio is gradually shifting to the speciality business segment, which now accounts for ~65% of domestic branded formulations in FY18 from 54% in FY14.

Export formulations comprise 38% of revenues (FY18). Of this, ~77% of export formulations are generics catering to the regulated US market.

The company has acquired US based Orit Laboratories LLC along with real estate. Orit is focused on developing and filing oral solid and liquid products. With 8,600 square feet R&D and pilot manufacturing facility, it has seven approved ANDAs and four ANDAs pending approval. Orit adds complementary skill sets in soft gelatin based oral solids and oral liquids to Alembic with a team of eight highly experienced scientists.

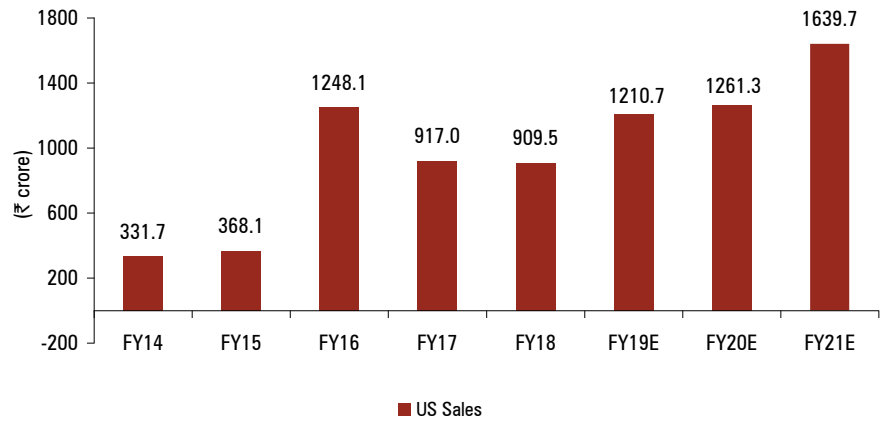
Total revenues grew at 14% CAGR in FY14-18 mainly due to strong growth in the domestic specialty segment and increased export generic contributions. We expect domestic growth to be driven by the specialty segment on the back of new product launches and addition of new specialty segments/sub-segments. On the export front, the US remains a key growth driver backed by a healthy product pipeline to support base business growth. Ex-US export business is also showing strong growth. We expect total revenues to grow at 17% CAGR in FY18-21E to ₹ 5013 crore to be driven by domestic branded formulations and strong export sales.

Exhibit 1: Revenues to grow at 17% CAGR in FY18-21E



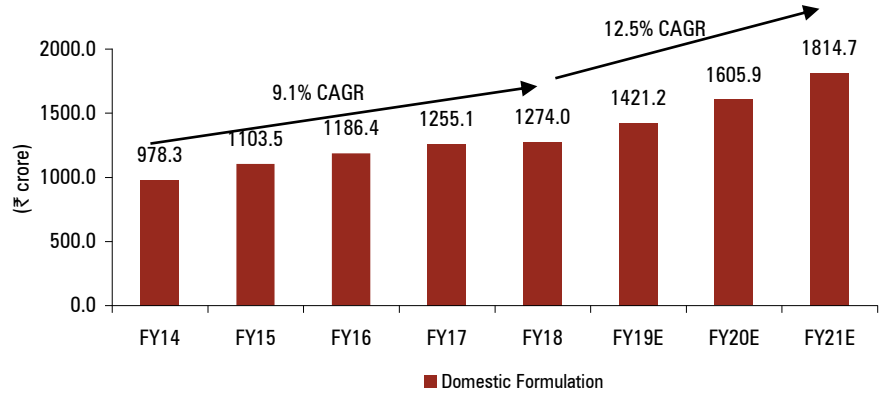
Source: Company, ICICI Direct Research

Exhibit 2: US sales trend (US growth to be 21.7% in FY18-21E)



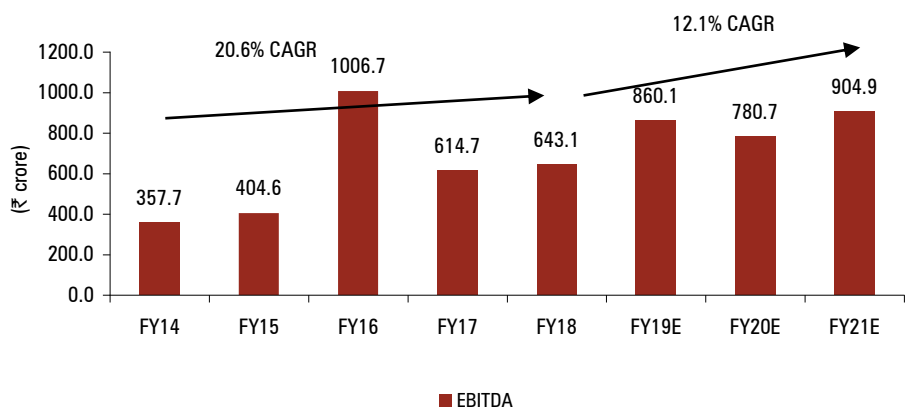
Source: Company, ICICI Direct Research

Exhibit 3: Domestic sales trend



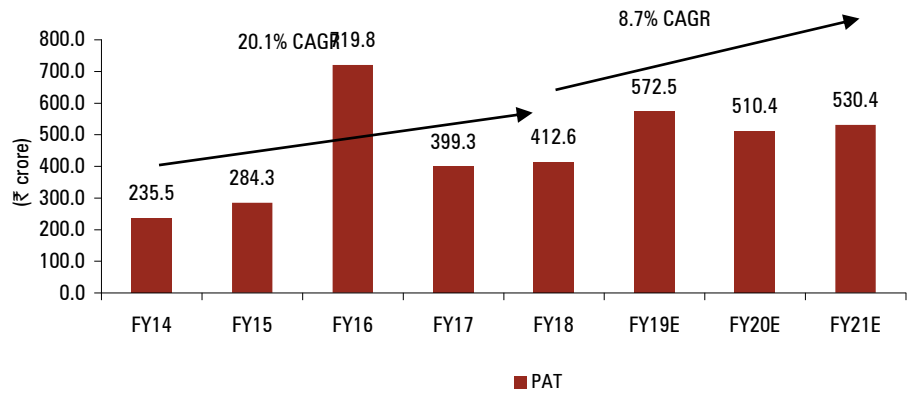
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA trend reflecting augmented R&D and capex impact in FY18-21E



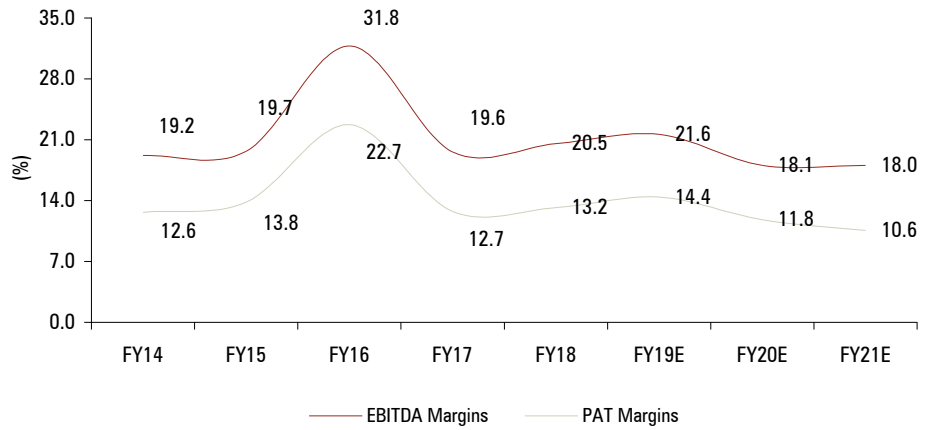
Source: Company, ICICI Direct Research

Exhibit 5: Net profit to grow at CAGR of 8.7% in FY18-21E



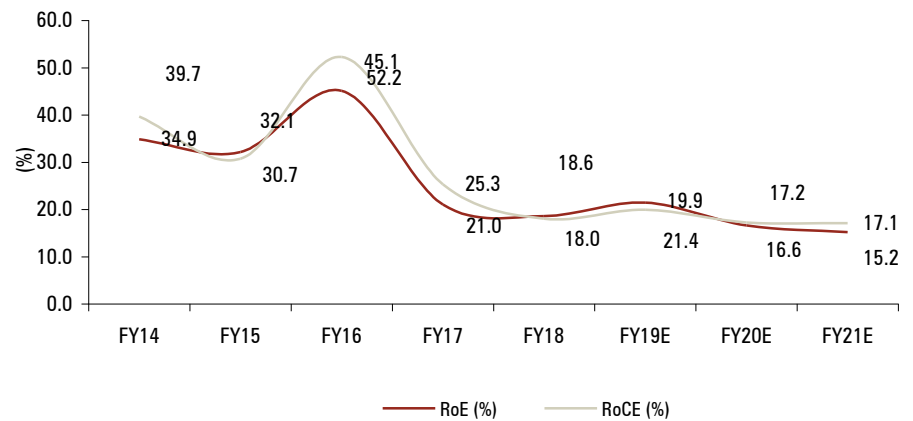
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA & PAT margins



Source: Company, ICICI Direct Research

Exhibit 7: Trends in return ratios



Source: Company, ICICI Direct Research

Exhibit 8: Trends in quarterly financials

(₹ Crore)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	YoY (%)	QoQ(%)
Revenues	921.7	626.6	736.8	879.4	777.0	741.4	648.2	789.3	840.0	853.3	862.5	1127.1	1018.2	21.2	-9.7
Raw Material Cost	206.0	123.9	193.7	247.0	211.6	204.0	182.0	213.3	226.4	263.8	255.4	272.1	248.5	9.7	-8.7
% to revenues	22.4	19.8	26.3	28.1	27.2	27.5	28.1	27.0	27.0	30.9	29.6	24.1	24.4		
Gross Profit	715.7	502.7	543.1	632.4	565.4	537.3	466.2	576.0	613.6	589.5	607.1	855.0	769.7	25.4	-10.0
Gross Profit Margin (%)	77.6	80.2	73.7	71.9	72.8	72.5	71.9	73.0	73.0	69.1	70.4	75.9	75.6	255 bps	-27 bps
Employee cost	117.0	96.9	134.1	118.7	130.5	137.9	158.5	159.5	147.4	157.3	164.9	182.6	198.4	34.6	8.6
% to revenues	12.7	15.5	18.2	13.5	16.8	18.6	24.5	20.2	17.6	18.4	19.1	16.2	19.5	194 bps	328 bps
R & D	70.1	111.0	82.3	108.7	116.7	109.0	94.0	98.1	98.1	121.1	121.5	144.7	112.2		
% to revenues	7.6	17.7	11.2	12.4	15.0	14.7	14.5	12.4	11.7	14.2	14.1	12.8	11.0	-66 bps	-182 bps
Other Expenditure	144.0	151.4	169.7	227.3	172.8	155.9	112.2	139.2	180.5	137.9	169.7	225.3	216.9	20.1	-3.7
% to revenues	15.6	24.2	23.0	25.8	22.2	21.0	17.3	17.6	21.5	16.2	19.7	20.0	21.3	-19 bps	131 bps
Total Expenditure	537.1	483.3	579.8	701.6	631.6	606.8	546.8	610.1	652.5	680.1	711.5	824.7	775.9	18.9	-5.9
% to revenues	58.3	77.1	78.7	79.8	81.3	81.8	84.4	77.3	77.7	79.7	82.5	73.2	76.2		
EBIDTA	384.6	143.3	157.0	177.8	145.4	134.6	101.4	179.2	187.5	173.2	151.0	302.3	242.2	29.2	-19.9
EBITDA Margin (%)	41.7	22.9	21.3	20.2	18.7	18.2	15.6	22.7	22.3	20.3	17.5	26.8	23.8	147 bps	-303 bps
Depreciation	21.7	24.4	19.4	20.6	21.1	21.8	21.8	25.7	26.4	31.6	27.6	28.6	29.1	10.0	1.5
Interest	1.0	1.3	1.3	1.0	0.8	1.8	0.9	0.4	0.8	1.3	1.6	5.8	6.0	625.6	2.4
OI	2.8	2.6	0.6	0.5	0.2	0.9	0.2	7.7	0.3	0.6	0.1	2.4	3.5		
PBT	364.7	120.2	136.9	156.7	123.7	111.8	78.9	160.8	160.6	141.0	121.9	270.3	210.8	31.2	-22.0
Tax	95.1	28.6	33.3	33.2	39.3	16.5	15.5	36.6	29.8	38.5	31.5	70.3	40.0	34.3	-43.1
Tax Rate (%)	26.1	23.8	24.3	21.2	31.8	14.7	19.6	22.7	18.5	27.3	25.9	26.0	19.0		
PAT	269.6	91.6	103.6	123.6	84.4	95.3	63.4	124.3	130.9	102.4	90.4	200.0	170.8	30.5	-14.6
PAT Margin (%)	29.2	14.6	14.1	14.0	10.9	12.9	9.8	15.7	15.6	12.0	10.5	17.7	16.8		
Exceptional Items (EI)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Net Profit before MI	269.6	91.6	103.6	123.6	84.4	95.3	63.4	124.3	130.9	102.4	90.4	200.0	170.8	30.5	-14.6
Add/(less) MI	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	-0.8		
Net Profit	269.6	91.6	103.6	123.6	84.4	95.3	63.4	124.3	130.9	102.2	90.4	200.0	171.5	31.1	-14.2
Net Profit (excl.EI)	269.6	91.6	103.6	123.6	84.4	95.3	63.4	124.3	130.9	102.2	90.4	200.0	171.5	31.1	-14.2

Source: Company, ICICI Direct Research

SWOT Analysis

Strengths- Speciality focus on domestic market, high operating margins, high return ratios and US pipeline

Weakness- Relatively late US entrant, still higher presence of acute therapies in the domestic branded formulations

Opportunities- The US generics space

Threats - Increased USFDA scrutiny across the globe regarding cGMP issues, pricing pressure due to client consolidation in the US. Also, extension of NLEM product list may impact domestic branded formulations.

Conference call Highlights

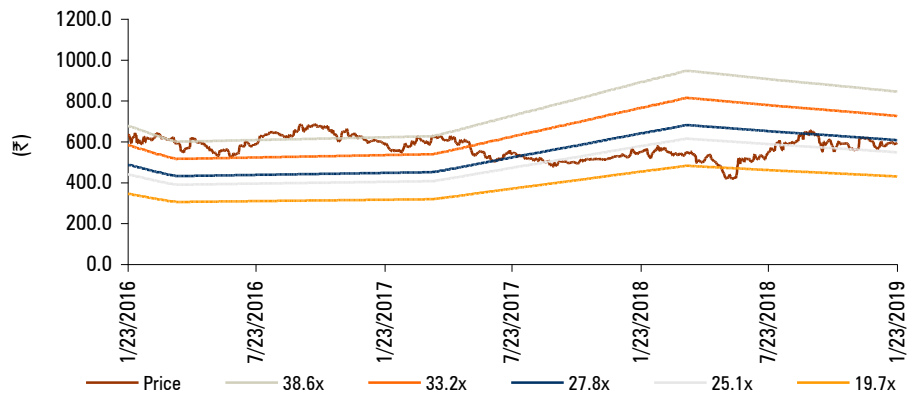
- Capex for the quarter was ₹ 162 crore while for 9MFY19 it was ₹ 504 crore. Additionally, ₹ 55 crore of capex was spent on the Aleor JV during the quarter with ₹ 165 crore for 9MFY19
- Gross borrowings, as on December 31, was at ₹ 1131 crore while cash was ₹ 260 crore. Net debt/equity was 0.36x
- Even during this quarter, the company benefited from supply shortages in three to four products in the US
- The company filed four ANDAs during the quarter- three of them through Aleor JV. APL received seven approvals including the first approval for Aleor JV product. It launched three products in the US
- The management has guided for 15 product launches in the US in the next four to six quarters
- In the domestic formulations, primary sales growth was sluggish due to secondary inventory adjustment. The management has guided for higher-than-industry growth in the domestic formulations for FY20
- For RoW exports (non-US), the management remains cautious regarding growth momentum due to the eminent slowdown expected in the Europe
- The management expects production at the new plants to commence in FY21 with ramp-up from FY22
- The company has so far spent ₹ 1700 crore on these five new plants
- Novel US launches (ex-orals) are likely to commence after two to three years
- The company currently has an 11-member sales team for the US front-end

Exhibit 9: Facilities

Location	Segment	Regulatory Approvals
Sikkim	Formulations	
Panelav, Gujarat	API	USFDA, EDQM
Panelav, Gujarat	Formulations	USFDA, MCC, MHRA, ANVISA & TPD
Baddi, Himachal Pradesh	Formulations	WHO GMP
Karkhadi, Gujarat	API	USFDA, EDQM, TGA, WHO

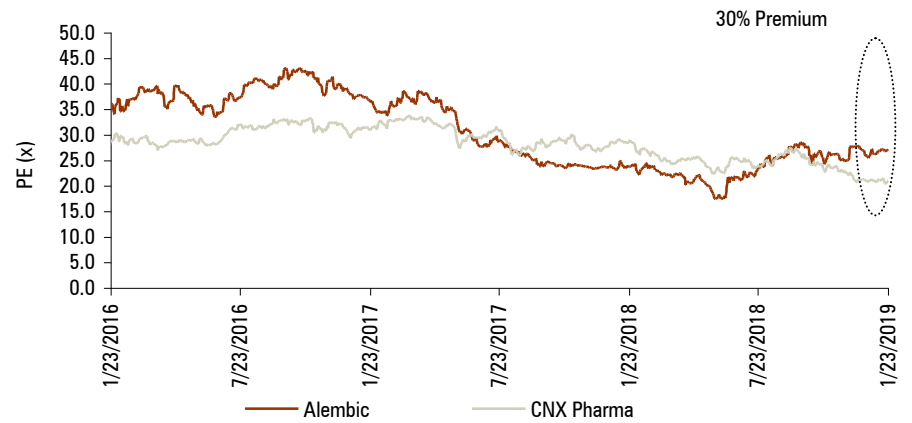
Source: Company, ICICI Direct Research

Exhibit 10: One year forward PE



Source: Company, ICICI Direct Research

Exhibit 11: One year forward PE of company vs. BSE Healthcare Index



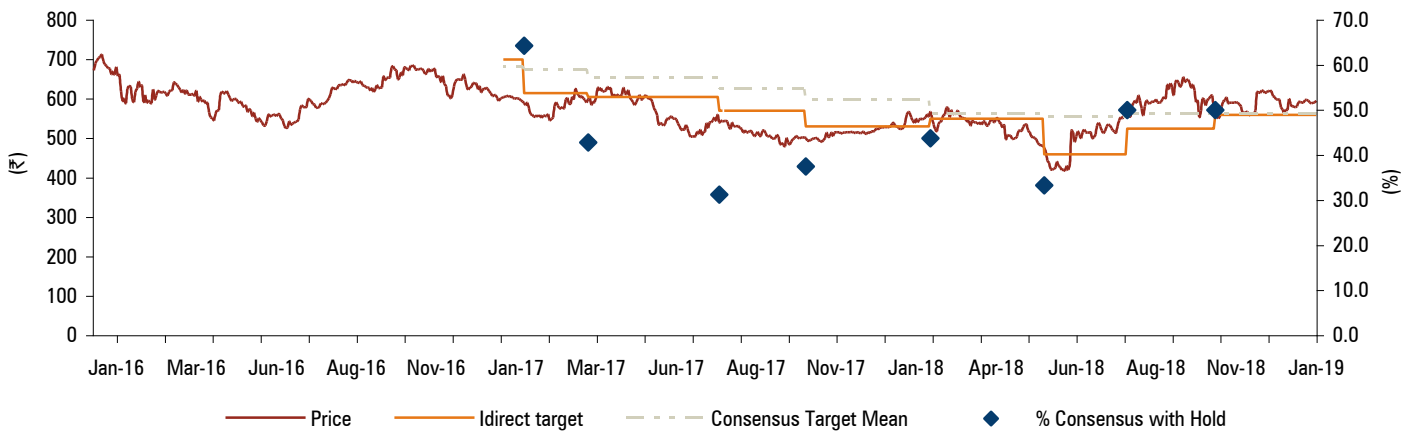
Source: Company, ICICI Direct Research

Exhibit 12: Valuation

	Revenues (₹ crore)	Growth (%)	Adj. EPS (₹)	Growth (%)	P/E (x)	EV/EBITDA (X)	RoNW (%)	RoCE (%)
FY18	3131	-0.1	21.9	3.3	27.2	18.4	18.6	18.0
FY19E	3978	27.0	30.4	38.7	19.6	13.9	21.4	19.9
FY20E	4325	8.7	27.1	-10.8	22.0	14.9	16.6	17.2
FY21E	5013	15.9	28.1	3.9	21.2	12.5	15.2	17.1

Source: Company, ICICI Direct Research

Recommendation history vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research. Initiated on September 28, 2015

Key events

Year	Event
1907	Alembic Ltd starts manufacturing tinctures and alcohol in Vadodara
1940	Starts manufacturing cough syrups, vitamins and sculpture drugs
1961	Inaugurates penicillin plant
1971	Becomes first Indian company to manufacture Erythromycin
1972	Launches Erythromycin under brand 'Althrocin'
2001	Starts manufacturing Cephalosporin C
2003	Formulation facility set up for regulate markets
2004	R&D facility set up at Vadodara
2006	Receives USFDA approval for API and formulation facilities
2007	Acquires non-oncology division of Dabur Pharma; enters high margin segments such as CVS, diabetes, GI and gynaecology
2010	Azithral sales cross ₹ 100 crore; demerger of pharma business from Alembic Ltd; Alembic Pharmaceuticals formed
2011	Receives Anvisa approval
2015	USFDA successfully inspects formulation and API plants
Oct-16	Panelav facility receives EIR from USFDA
Mar-17	USFDA inspects bioequivalence facility (Vadodara) during the quarter without any observations
Nov-17	Acquires US based generic drug developer, Orit Laboratories LLC

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position	Position Change
1	Alembic Ltd	Sep-18	29.5	55.5m	0.0
2	Nirayu Pvt. Ltd.	Sep-18	26.2	49.3m	0.0
3	Shreno, Ltd.	Sep-18	11.0	20.7m	0.0
4	ICICI Prudential Asset Management Co. Ltd.	Sep-18	3.4	6.4m	0.0
5	Amin (Chirayu Ramanbhai)	Sep-18	2.4	4.5m	0.0
6	Matthews International Capital Management, L.L.C.	Sep-18	2.3	4.4m	0.0
7	Amin (Malika C)	Sep-18	1.6	3.0m	0.0
8	HSZ (Hong Kong) Limited	Sep-18	1.4	2.5m	0.0
9	Elara Capital Plc	Sep-18	1.2	2.3m	0.0
10	Goldman Sachs Asset Management International	Nov-18	1.0	1.8m	0.0

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoter	72.7	72.9	73.0	73.0	73.0
Others	27.3	27.1	27.0	27.0	27.0

Recent Activity

Buys			Sells		
Investor Name	Value (\$ mn)	Shares	Investor Name	Value (\$ mn)	Shares
Schroder Investment Management (Hong Kong) Ltd.	0.4	0.0	Taurus Asset Management Co. Ltd.	-0.2	0.0
The Vanguard Group, Inc.	0.2	0.0	Mellon Investments Corporation	0.0	0.0
BlackRock Asset Management Ireland Limited	0.1	0.0	Schroder Investment Management (Singapore) Ltd.	0.0	0.0
Saraiya (Krupa Paresh)	0.0	0.0	BlackRock Advisors (UK) Limited	0.0	0.0
BlackRock Institutional Trust Company, N.A.	0.0	0.0	Wells Capital Management Inc.	0.0	0.0

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March) ₹ crore	FY18	FY19E	FY20E	FY21E	
Revenues	3,130.8	3,977.5	4,325.1	5,013.2	
Growth (%)	-0.1	27.0	8.7	15.9	
Raw Material Expenses	885.6	1,057.2	1,252.1	1,426.3	
Employee Expenses	622.8	749.6	886.6	1,102.9	
R&D Expenditure	411.3	494.8	519.0	526.4	
Other Manufacturing Expenses	568.1	815.8	886.6	1,052.8	
Total Operating Expenditure	2,487.7	3,117.4	3,544.4	4,108.3	
EBITDA	643.1	860.1	780.7	904.9	
Growth (%)	4.6	33.7	-9.2	15.9	
Interest	3.4	19.3	16.7	9.6	
Depreciation	105.5	113.9	126.7	235.1	
Other Income	7.0	8.0	17.1	19.8	
PBT	541.3	734.9	654.4	680.0	
Total Tax	120.4	161.6	144.0	149.6	
Tax Rate (%)	22.2	22.0	22.0	22.0	
Adjusted PAT	412.6	572.5	510.4	530.4	
Growth (%)	3.3	38.7	-10.8	3.9	
EPS (Adjusted)	21.9	30.4	27.1	28.1	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March) ₹ crore	FY18	FY19E	FY20E	FY21E	
Equity Capital	37.7	37.7	37.7	37.7	
Reserve and Surplus	2,182.4	2,634.4	3,037.3	3,456.0	
Total Shareholders funds	2,220.1	2,672.1	3,075.0	3,493.7	
Minority Interest	0.3	0.3	0.4	0.4	
Total Debt	707.8	1,007.8	707.8	407.8	
Deferred Tax Liability	35.6	39.2	43.1	47.4	
Other Non Current Liabilities	0.0	0.0	0.0	0.0	
Long Term Provisions	61.7	67.8	74.6	82.1	
Source of Funds	3,025.5	3,787.2	3,900.9	4,031.4	
Gross Block - Fixed Assets	1,238.5	1,338.5	1,488.5	2,938.5	
Accumulated Depreciation	248.9	362.8	489.5	724.6	
Net Block	989.6	975.7	999.0	2,213.9	
Capital WIP	1,010.2	1,510.2	1,510.2	210.2	
Total Fixed Assets	1,999.8	2,485.8	2,509.2	2,424.1	
Goodwill on Consolidation	3.8	3.8	3.8	3.8	
Investments	41.6	41.6	41.6	41.6	
Inventory	733.9	933.4	997.9	1,156.7	
Cash	89.9	246.7	255.8	322.1	
Debtors	526.3	669.4	715.7	829.5	
Loans & Advances & Other CA	0.0	0.0	0.0	0.0	
Total Current Assets	1,824.9	2,329.0	2,496.8	2,888.5	
Creditors	759.3	965.7	1,032.5	1,196.7	
Provisions & Other CL	156.4	179.2	197.1	216.8	
Total Current Liabilities	915.7	1,144.9	1,229.6	1,413.5	
Net Current Assets	909.2	1,184.1	1,267.3	1,474.9	
LT L& A, Other Assets	71.1	71.9	79.0	86.9	
Deferred Tax Assets	0.0	0.0	0.0	0.0	
Application of Funds	3,025.5	3,787.2	3,900.9	4,031.4	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March) ₹ crore	FY18	FY19E	FY20E	FY21E	
Profit/(Loss) after taxation	406.2	572.5	510.4	530.4	
Depreciation	105.5	113.9	126.7	235.1	
Net Increase in Current Assets	-568.9	-347.3	-158.8	-325.4	
Net Increase in Current Liabilities	349.7	229.2	84.7	184.0	
CF from operating activities	312.4	568.3	563.0	624.1	
(Inc)/dec in Investments	0.0	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-885.8	-600.0	-150.0	-150.0	
Other investing activities	2.1	7.3	2.5	1.0	
CF from investing activities	-884.7	-591.0	-146.4	-146.1	
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0	
Inc / (Dec) in Loan	619.1	300.0	-300.0	-300.0	
Dividend & Dividend Tax	-90.8	-120.6	-107.5	-111.7	
Other financing activities	-25.7	0.0	0.0	0.0	
CF from financing activities	502.6	179.4	-407.5	-411.7	
Net Cash flow	-69.7	156.8	9.1	66.3	
Opening Cash	159.6	89.9	246.7	255.8	
Closing Cash	89.9	246.7	255.8	322.1	
Free Cash flow	-573.3	-31.7	413.0	474.1	

Source: Company, ICICI Direct Research

Key ratios					
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Per share data (₹)					
Adjusted EPS	21.9	30.4	27.1	28.1	
BV per share	117.8	141.8	163.1	185.3	
Dividend per share	4.6	6.4	5.7	5.9	
Operating Ratios (%)					
Gross margins	71.7	73.4	71.1	71.5	
EBITDA Margins	20.5	21.6	18.1	18.0	
PAT Margins	13.2	14.4	11.8	10.6	
Inventory days	85.6	85.7	84.2	84.2	
Debtor days	61.4	61.4	60.4	60.4	
Creditor days	88.5	88.6	87.1	87.1	
Asset Turnover	2.5	3.0	2.9	1.7	
EBITDA conversion Rate	48.6	66.1	72.1	69.0	
Return Ratios (%)					
RoE	18.6	21.4	16.6	15.2	
RoCE	18.0	19.9	17.2	17.1	
RoC	27.9	36.8	30.6	19.1	
Valuation Ratios (x)					
P/E	27.2	19.6	22.0	21.2	
EV / EBITDA	18.4	13.9	14.9	12.5	
EV / Net Sales	3.8	3.0	2.7	2.3	
Market Cap / Sales	3.6	2.8	2.6	2.2	
Price to Book Value	5.1	4.2	3.6	3.2	
Solvency Ratios					
Debt / Equity	0.3	0.4	0.2	0.1	
Debt / EBITDA	1.1	1.2	0.9	0.5	
Current Ratio	1.4	1.4	1.4	1.4	

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)				PE(x)			RoCE (%)			RoE (%)					
						FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E
Ajanta Pharma	AJAPHA	1189	1,225	Buy	10461.5	57.4	53.0	47.9	61.5	20.7	22.4	24.8	19.3	41.3	30.0	22.8	24.5	32.3	23.0	17.2	18.7
Alembic Pharma	ALEMPHA	595	620	Hold	11219.5	21.2	21.9	30.4	27.1	28.1	27.2	19.6	22.0	25.3	18.0	19.9	17.2	21.0	18.6	21.4	16.6
Apollo Hospitals	APOHOS	1299	1,440	Buy	18077.9	15.9	8.5	26.6	48.2	81.8	153.7	48.8	26.9	6.1	6.3	9.8	13.7	6.0	3.6	10.4	16.4
Aurobindo Pharma	AURPHA	793	915	Buy	46462.5	38.8	41.6	42.6	53.1	20.4	19.1	18.6	14.9	24.4	20.0	18.0	16.7	24.2	20.7	17.8	18.4
Biocon	BIOCON	671	740	Buy	40251.0	8.5	6.2	11.5	15.4	79.1	108.1	58.1	43.5	9.4	8.1	13.1	16.2	10.5	7.2	11.7	13.7
Cadila Healthcare	CADHEA	342	415	Buy	34991.5	14.5	17.5	16.5	18.9	23.5	19.5	20.7	18.1	13.1	16.7	14.2	13.1	21.4	20.5	16.8	16.8
Cipla	CIPLA	509	510	Hold	40984.3	12.5	18.3	17.5	23.1	40.7	27.7	29.0	22.0	7.7	9.6	11.0	13.9	8.0	10.4	9.2	11.0
Divi's Lab	DIVLAB	1504	1,700	Buy	39922.5	39.9	33.3	55.0	65.5	37.6	45.2	27.3	23.0	25.3	20.0	26.8	26.3	19.8	14.9	20.7	20.5
Dr Reddy's Labs	DRREDD	2654	2,700	Buy	44055.5	78.0	57.0	97.0	134.8	34.0	46.5	27.4	19.7	7.3	6.1	8.9	11.9	10.5	7.2	11.2	13.7
Glenmark Pharma	GLEPHA	650	660	Hold	18333.9	42.2	28.5	32.9	36.8	15.4	22.8	19.8	17.7	19.5	14.6	16.0	15.2	26.5	15.6	14.9	14.5
Indoco Remedies	INDREM	213	165	Hold	1962.8	8.4	4.5	-1.8	7.2	25.5	47.7	-121.1	29.5	8.7	6.2	0.4	8.5	11.8	6.1	-2.5	9.2
Ipca Laboratories	IPCLAB	778	845	Buy	9828.9	15.4	19.0	32.4	42.3	50.4	41.0	24.0	18.4	8.7	9.1	13.8	17.1	7.9	8.9	13.5	15.4
Jubilant Life	JUBLIF	761	920	Buy	12117.3	36.9	41.3	62.5	76.6	20.6	18.4	12.2	9.9	13.8	14.9	19.4	21.3	16.8	15.7	19.4	19.4
Lupin	LUPIN	869	870	Hold	39314.0	56.7	20.8	27.6	39.1	15.3	41.9	31.4	22.2	16.6	10.4	10.4	12.4	19.0	6.9	8.6	11.0
Narayana Hrudalaya	NARHRU	186	270	Buy	3801.1	4.1	2.5	2.3	6.6	45.0	74.3	80.0	28.2	12.5	6.3	7.1	12.0	8.8	4.9	4.4	11.1
Natco Pharma	NATPHA	693	860	Buy	12787.1	26.3	37.7	41.7	24.9	26.3	18.4	16.6	27.8	33.6	27.4	26.6	14.8	29.5	22.7	21.2	11.6
Sun Pharma	SUNPHA	423	460	Hold	101417.1	29.0	13.0	14.7	21.1	14.6	32.6	28.8	20.0	20.3	9.8	10.2	13.3	19.0	8.2	8.8	11.5
Syngene Int.	SYNINT	574	675	Buy	11483.0	14.4	15.3	16.1	18.9	0.0	0.0	0.0	0.0	16.0	15.9	16.6	17.6	20.3	17.7	15.9	15.8
Torrent Pharma	TORPHA	1916	1,850	Hold	32426.3	55.2	40.1	41.9	62.5	34.7	47.8	45.8	30.7	18.9	11.2	12.9	16.9	21.5	14.7	13.7	17.8

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: > 10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

We /I, Siddhant Khandekar CA-INTER, Mitesh Shah MS (Finance) Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities Limited Sebi Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.